

VOX

Research-based policy

- **The collapse of global trade, murky protectionism, and the crisis**

- **Macroeconomic stability and financial regulation: Key**

# A crisis round of trade negotiations?

Aaditya Mattoo | Arvind Subramanian

[Create account](#) | [Login](#)

30 March 2009

*This column proposes the launch of a WTO Crisis Round at the G20 summit. Unlike the Doha round's liberalising agenda, such a crisis round would simply aim to "hold the line on protectionism" and prevent a retreat from current levels of trade openness. This column that says that such action is necessary for the global trading system to survive these "potentially perilous times."*

Protectionism is steadily mounting. The wide spectrum of new protectionist measures share two features – they are WTO-legal and largely unaddressed by the ongoing Doha Round. The current solution adopted by the world's leading countries in the G20 is a re-statement of good intentions – not to erect new barriers and to try, yet again, to complete the Doha Round. The former has clearly not worked because [seventeen of the G20 countries have imposed restrictions](#). And focusing on Doha alone could delay action to head off the protectionist pressures that are emerging. It is time to find an urgent solution to this problem.

Our suggestion is to launch immediately a crisis round, with the G20 London Summit taking this initiative. This round would aim to hold the line on protectionism and prevent reversals from the current level of global openness. For this round to have timely effect, it must be concluded within 12 months. We elaborate below on three aspects of our proposal: agenda, ambition, and actors.

## The pre-Doha equilibrium

Since the conclusion of the Uruguay Round in the mid-1990s, the multilateral trading system has been in a kind of equilibrium, in which few demands have been made of the WTO to deliver more opening of markets. Emerging market countries steadily lowered their barriers to flows of goods, services and capital, either on their own or in the context of regional agreements. Many developing countries also drastically reduced barriers to foreign investment and international trade in most of their service sectors, including finance, telecommunications, transport, and retail.

Industrial countries, apart from pockets of protection in agriculture, clothing, and labour services, maintained open markets. This state of affairs was a reasonably stable equilibrium – private sector interests in the industrial world, the usual demanders of multilateral trade liberalisation, did not seriously push their governments for multilateral market opening. This explains why repeated efforts at reviving WTO trade negotiations (such as Seattle in 1999) failed. This also explains why, when the Doha Round was launched in a burst of post-9/11 international solidarity, its ambitions were relatively moderate, yet even these ambitions have proved [difficult to realise](#).

## Global financial crisis

The global financial crisis has disturbed this equilibrium. The economic downturn and the resulting under-employment of resources have created new macroeconomic sources of protectionist

pressure. In terms of the constituents of aggregate demand, consumption and investment are in wholesale retreat, creating a temptation to reduce imports and increase exports through protectionist actions.

Furthermore, as countries inject demand into the economy via fiscal reflation, they are anxious to not let this demand “leak” abroad. The [Buy America](#) provisions in the US fiscal stimulus package and the French attempt to condition auto subsidies on locating investment in France illustrate this anxiety.

## The nature of new protectionism

We have witnessed protection imposed through traditional instruments, such as tariff increases, restrictive import licensing, state aid (especially in the [automobile](#) and financial sectors), anti-dumping actions, and discriminatory government procurement, which has assumed greater importance in industrial countries because of the increased role of the state and higher government expenditures. There have also been newer forms of protection, including undervalued exchange rates, environmentally motivated trade restrictions, resource nationalism (such as when countries restricted the export of food during last year’s commodity crisis), and now financial nationalism, whereby financial resources are directed to national firms.

These differing forms of protection share two common features – they are consistent with current WTO rules and, for the most part, are not being addressed in the Doha Round.

## International policy responses

Two possible scenarios loom ahead. In the first, low-grade protectionism – limited in scope and intensity, pursued by a narrower range of actors – would prevail. This is a world that would reflect the expediency of Prime Minister Vladimir Putin’s [words at Davos](#): “Although additional protectionism will prove inevitable during the crisis, all of us must display a sense of proportion.”

But low-grade protectionism is not the only possible outcome. There is a gloomier scenario in which protectionist actions become more serious. The probability of this outcome is currently low, but its likelihood will increase with the depth and length of the global recession.

In this scenario, an exclusive focus on completing Doha could delay action to head off the protectionist pressures that are emerging. Even the signalling value of completing Doha would be doubtful. Imagine that Doha were completed while anti-dumping actions rose, dollops of subsidies were doled out, procurement became discriminatory, environmentally motivated protectionism was unleashed, and mercantilism took hold. How would it help the credibility of the WTO system to have spent time negotiating some tariffs reductions and limits on agricultural subsidies while trade was rapidly declining due to a range of new protectionist actions?

Historically, once protection is in place, it is painfully difficult to negotiate away – the high depression-era tariffs were only eliminated decades later. If this scenario is at all likely, the world must act now to head off the new protectionist pressures. We need a crisis round.

## The Crisis Round

We suggest that the Crisis Round be immediately launched at the G20 London Summit. Its key aim would be to preserve something close to the current level of global openness. The crisis nature of the round would have implications for its agenda, ambitions, and actors.

## Agenda

First, the agenda would be confined to the key protectionist measures. These include trade restrictions and subsidies in agriculture, manufacturing and services, anti-dumping actions, preferential government procurement, and environmentally motivated trade interventions. While exchange rate mercantilism could merit inclusion, it is a much harder issue to address and would in any case require a high degree of institutional coordination. Similarly, financial protectionism needs to be tackled but this is best done through coordination between national financial regulators rather than through WTO legal mechanisms.

Table 1 spells out the broad aims of the Crisis Round, but specific elements would have to be negotiated by countries, of course.

**Table 1.** Commitments under the Doha Round and the proposed Crisis Round

Sector / Area	Doha Agenda's likely outcome	Crisis round agenda
Agricultural tariffs (developing)	Some liberalisation, but bound tariff rates above current applied levels	No liberalisation, but bound tariff rates at current applied levels
Manufacturing tariffs (developing)	Some liberalisation, but bound tariff rates above current applied levels	No liberalisation, but bound tariff rates at current applied levels
Agricultural tariffs (industrial)	Some liberalisation, but bound tariff rates above current applied levels	No liberalisation, but bound tariff rates at current applied levels
Manufacturing tariffs (industrial)	Some liberalisation	No liberalisation
Services	Limited increase in scope of bound tariff rates	All countries bound at current access
Anti-dumping	Limited changes to rules; may even lead to permissiveness	Raise <i>de minimis</i> dumping margin and <i>de minimis</i> volume of dumped imports
Government procurement	No change	All countries to bind existing procurement regime on MFN basis
State aid in manufacturing	No change	Bind at current levels
Environment-related trade measures	No change	No trade-related actions pending conclusions of global climate change negotiations

## Ambition

A crisis round would moderate the level of ambition in some policy areas and temporarily raise it in others. It would not seek new liberalisation but aim to bind – for a fixed period of time, say three years – the current level of openness across the board in the WTO. For the Crisis Round to have timely effect, it would have to be concluded within 12 months.

For developing countries, the aim would be to bind all tariffs in industry and agriculture as well as restrictions in services at currently applied levels. For industrial countries, the aim would be to bind current levels of subsidisation in agriculture, current levels of aid to industry (including that handed

out in the current crisis), and current levels of access in cross-border trade in services (the latter would head off the temptation to reduce outsourcing). For both sets of countries, to reduce the threat of anti-dumping actions, there would be an effort to raise the threshold for such actions (by amounts to be negotiated).

On government procurement, the crisis may offer an opportunity to strike a bargain that has hitherto proved elusive. Existing signatories to the WTO's Government Procurement Agreement would extend the benefits of this agreement to the larger developing countries. In return, the latter would assume the agreement's transparency obligations and transparently bind their current practice.

Given that environmentally motivated trade restrictions are becoming a major concern, there would be a commitment by all countries to desist from such actions until an international agreement on climate change is negotiated. In effect, this would be like a peace clause, pending political agreement on the key issues of burden-sharing on climate change.

Another innovation that might need to be considered is an accelerated dispute settlement procedure to deal expeditiously with complaints. The object of preserving the status quo would be defeated if prolonged violations were tolerated simply because of the tardiness of the dispute settlement process. A possible model could be the provision for expeditious arbitration in current WTO dispute settlement procedures.

#### *Actors*

A crisis round would allow for another innovation, namely variable geometry. Since the major threats to the global economy come from actions by the large trading partners, it is these countries that must make commitments to desist from protectionism. The G20 would be a natural forum for initiating these commitments but other important trading countries may also have to be brought in to constitute a critical mass. Insofar as the benefits of these bindings would be extended on an MFN basis to all WTO members, the interests of the small and poor countries would be naturally protected.

### **Will a crisis round succeed?**

One advantage of initiating a crisis round along these lines would be that it would specifically address the current forms of protection. Trade history tells us that countries are more likely to resist protectionist pressures if there is a serious ongoing process aimed at addressing those pressures. In the Uruguay Round, for example, there was a standstill and rollback commitment that was broadly (though not perfectly) respected because all countries were engaged in serious negotiations to bring down barriers. Thus, even the initiation of a crisis round with the aim of legally binding specific instruments of protection would lend greater force to the current political (and somewhat nebulous) standstill commitment.

Why would this Crisis Round succeed when efforts to complete Doha have failed? In the current political climate, Doha seems to be doing both too much and too little. Too much because it is aiming for new liberalisation in agriculture and industry when the climate for holding the line on openness, let alone achieving market opening, is proving politically difficult. At the same time, the Doha agenda is also doing too little because it is not addressing the protectionist pressures emerging in new areas in new forms.

The Crisis Round would address both these problems. Because its major thrust would be to lock in the current state of openness, it would not require any incremental liberalisation. And by extending this lock-in more widely than the Doha agenda, it would be more effective. Its feasibility would be facilitated by the fact that the envisaged commitments are time-bound.

Ultimately, though, the success of the Crisis Round would depend on whether major trading players see it as providing a mutually acceptable balance of gains and losses. Table 2 suggests that such a broad balance is achievable.

**Table 2.** Gains and concessions for major trading countries in the proposed Crisis Round

	<b>Gains</b>	<b>Concessions</b>
<i>US</i>	Government procurement in developing countries (DCs) Manufacturing in DCs Agriculture and services globally	Agricultural protection Preferential procurement Environment
<i>EU</i>	Government procurement in DCs Manufacturing in DCs Agriculture and services globally	Agricultural protection Preferential procurement Environment
<i>Brazil</i>	Agriculture globally Environmental measures	Manufacturing and services Preferential procurement
<i>India</i>	Services globally Environmental measures Government procurement	Manufacturing and agriculture Preferential procurement
<i>China</i>	Manufacturing in DCs Environmental measures Government procurement	Services Preferential procurement

## Conclusion

In some ways, the crisis is an opportunity for the WTO to respond nimbly and effectively in pre-empting protectionism. In a crisis, there can be experimentation that would be difficult in normal times (for example, variable geometry).

In the long run, the WTO should take on a wider liberalisation agenda, for example, along the lines we proposed in a recent [article](#) in *Foreign Affairs*.

But first, the trading system must survive these potentially perilous times. That survival requires calibrating the agenda and ambition to stem the protectionist tide. Ambition can return when this tide recedes. And it is even possible that an innovative response to the crisis would enhance the WTO's credibility and provide experience and ideas that would facilitate the successful conclusion of Doha or even a more ambitious effort.

The experience of the 1930s illustrates that protectionism can feed on itself and spark off a vicious downward spiral in the world economy. If this scenario is at all likely, the world must act now. In effect, the Crisis Round would simply ask countries to walk the talk – to convert their political declarations into legally enforceable, time-bound commitment in the WTO. If they are really sincere, why should that be so hard?

*This article may be reproduced with appropriate attribution. See Copyright (below).*

---

**Topics:** [Global governance](#), [International trade](#)

**Tags:** [WTO](#), [protectionism](#), [global crisis debate](#)

---

## Comments

VoxEU.org

[Copyright](#) [Contact](#)